

ZIONS BANCORPORATION

January 31, 2014

Submitted by Email

Legislative and Regulatory Activities Division
Department of the Treasury
Office of the Comptroller of the Currency
400 7th Street SW
Washington DC 20219
Docket ID OCC- 2013-0016

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington DC 20551
Docket No. R-1466

Mr. Robert E. Feldman, Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429
RIN 3064-AE04

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring;
Proposed Rule

To Whom It May Concern:

Zions Bancorporation appreciates the opportunity to comment on the federal banking agencies' proposed rule (proposed rule) that would implement a liquidity coverage ratio (LCR) standard established by the Basel Committee on Banking Supervision.

Zions Bancorporation is a regional banking organization headquartered in Salt Lake City, Utah, and consists of a collection of banks in select high growth markets. Under local management teams and community identities, Zions operates over 480 full-service banking offices in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah and Washington. In addition, Zions is a national leader in SBA lending, public finance advisory services, and agricultural finance. The company is included in the S&P 500 Index and has approximately

11,000 employees. With assets of over \$50 billion, Zions is considered a systemically important financial institution (SIFI). Considering Zions' asset size and that it is not active internationally, Zions anticipates that it will be subject to the Modified Liquidity Coverage Ratio as described in section V of the preamble to the proposed rule.

Zions appreciates the effort by the agencies to bolster the liquidity management practices of large banking institutions. However, we have some questions about how the rule may be applied as well as some practical suggestions that may help the rule capture actual and reliable liquidity management as conducted by an institution such as ours. Our questions and comments relate to definitions and categories of high quality liquid assets, the treatment of municipal deposits that are collateralized by High Quality Liquid Assets, and to the prospective inclusion of a contractually committed borrowing line from a government sponsored enterprise (GSE) as a reliable source of liquidity.

Coins and Banknotes

As compared to the proposed LCR framework circulated by the Basel Committee on Banking Circulation entitled "Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools," the proposed rulemaking does not appear to include coins and banknotes as level 1 liquid assets. Such assets are clearly highly liquid and for clarity and completeness the market value of coins and bank notes should be included in the proposed rule as level 1 liquid assets.

Municipal Securities

Banks have historically held large amounts of securities issued by state and local governments. Under the Community Reinvestment Act (CRA), banks are required to make loans and purchase securities to improve their local communities. Many municipal securities are considered CRA investments because the projects that they fund are community development projects.

The asset quality of most municipal bond portfolios has been superb. The credit quality has certainly been better than non-GSE guaranteed mortgage backed securities (MBS) or corporate bonds. A AAA-rated State of Utah general obligation bond is certainly of better credit quality and more liquid in times of stress than a BBB- corporate bond. In Utah, local school districts obtain a AAA rating due to the state guarantee. A similar situation exists in Texas.

Highly rated municipal bonds should not be treated worse in the LCR calculation than similarly rated corporate bonds. As testified by rating agencies before Congress, the historic default rate for similarly rated municipal bonds versus corporate bonds is much lower for municipal bonds. The market knows this and it is reflected during times of stress. The credit risk of corporates is properly reflected in the regulatory risk weightings of 100% for corporates, 50% for municipal revenue bonds and 20% for municipal general obligation bonds.

We appreciate the effort undertaken by Citigroup Global Markets to compile compelling empirical evidence relating to the liquidity of municipal securities and we urge the agencies to

give full consideration to that evidence contained in their letter commenting on the proposed rule dated December 27, 2013. In summary, they demonstrate that:

- Compared to other asset classes that are considered by the proposed rule to be high quality liquid assets (HQLA), municipal securities have shown relatively stable values in times of stress.
- Noting that trading volume of municipal securities is not appropriately measured on a bond-by-bond basis because they are frequently divided into many smaller CUSIPs, Citi shows that municipal securities trade at least as frequently as corporate debt and GSE debt. They also demonstrate that during times of stress, rather than municipal markets freezing up, transactions volumes increased by 10% to 25%.
- Secured funding markets for municipal debt (e.g. repo) are efficient, deep and continued to function well during the recent financial crisis with no increased haircuts. They also note that municipal securities can be pledged at the Federal Reserve, with the same haircut as U.S. Agency and GSE securities.
- Municipal securities have a broad and diverse investor base and banks and other financial institutions hold a relatively small fraction of the total amount outstanding, which should alleviate concerns about concentration and correlation risk.

State and Local Housing Authority Bonds

State and local housing authorities issue highly rated housing bonds. These bonds are generally backed with Federal Housing Administration (FHA) and or Veteran's Administration (VA) guaranteed first mortgages. At a minimum, these high quality securities should be classified as level 2b liquid assets (similar to residential mortgage backed securities). Many banks own these securities as CRA investments, so clear direction would be appreciated.

Mutual Funds

Further guidance is requested on how to classify mutual funds such as open-end GNMA (Government National Mortgage Association) funds.

- Would they be considered level 1 liquid assets since the underlying assets are zero-risk weighted GNMA securities and funds can be used as collateral to borrow against at a Federal Home Loan Bank (FHLB)?
- Would they be considered level 2a liquid assets since the fund manager is the only market maker and there is no repo market?
- Would they be considered level 2b liquid assets since what the bank really owns is an equity security of the mutual fund company?

Repo Market/Ability to Borrow Against HQLA

The proposed rule allows that qualifying securities in a bank's Held to Maturity (HTM) portfolio are included in HQLA. It appears that the logic behind this guidance is that during

times of stress these securities could be sold in the repo market, which means the bank could borrow against these securities without tainting the accounting treatment of its HTM portfolio. This guidance makes it clear that the ability to obtain secured borrowing against these assets is the critical characteristic.

Community banks and most regional banks do not operate in the national repo market. In fact, most are not even set up to do repos in the capital markets. These banks generally obtain their secured funding from their FHLB. It would be helpful to the industry if this regulation made it clear that the ability to borrow against 0% and 20% risk weighted assets included the ability to borrow from the FHLBs in addition to just the repo market. The FHLBs were created by Congress to provide liquidity to financial institutions.

Federal Home Loan Bank Committed Line

If a bank owns Federal Home Loan Bank debt securities in its investment portfolio, it appears that the securities would be classified as level 2a liquid assets. Such securities would be issued by a GSE and would have a 20% risk weighting and also appear to meet the other requirements for level 2a liquid assets.

Most banks are members of a FHLB and have the ability to borrow from their FHLB for liquidity or other reasons. The proposed rule does not appear to allow a bank to consider that important source of practical liquidity in the LCR calculation.

Zions Bancorporation's affiliate banks are members of four FHLBs. We are aware of a Federal Home Loan Bank that is considering offering to its members a committed borrowing line. The member bank would pay an ongoing commitment fee in exchange for an irrevocable contractual obligation from the FHLB to have the committed amount available to take down as advances. This contractual obligation by the FHLB would be similar to the FHLB's contractual obligation to pay principal and interest on its debt securities. In our view, a committed line offered by an FHLB should be included in the LCR calculation. The Federal Home Loan Bank system was established by Congress to provide liquidity to financial institutions and the system has consistently and reliably done so, including during the recent financial crisis. To exclude this vital, practical source of liquidity would be contrary to the very rationale for their existence.

Municipal Deposits

Many U.S. states require that municipal deposits in excess of FDIC insurance be collateralized with what would otherwise be HQLA. Those securities being pledged would not be counted as on-balance sheet liquid securities since they are pledged to the municipality (i.e., they are not unencumbered). If the municipal deposit were withdrawn during a time of stress, the pledged securities could then be liquidated. In recognition of this fact, municipal deposits for which HQLA securities are pledged should not have an assumed run off schedule during the period of

stress. Many banks have already exited the business of serving local municipalities. If this proposed rule is not modified, additional banks will choose to not take municipal deposits.

Thank you for the opportunity to seek clarification on the proposed rule and to provide our view on these issues. We would be happy to discuss these matters further if you so desire.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. David Hemingway", with a stylized flourish at the end.

W. David Hemingway
Executive Vice President
Chairman, Asset and Liability Committee